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SUBJECT: ISN ACTING A/S MCNERNEY'S NONPROLIFERATION
CONSULTATIONS IN CANBERRA

Classified By: Deputy Chief of Mission Daniel A. Clune. Reasons: 1.4 (b), (d)

SUMMARY

11. (S/NF) During ISN Acting Assistant Secretary Patricia McNerney's June 30 consultations on nonproliferation in Canberra, senior Australian officials said Prime Minister Rudd wanted his proposed International Commission on Nuclear Nonproliferation and Disarmament to have a strong disarmament focus. They confirmed the initiative remains in a nascent stage, with such details as consultations with Japan on co-chairing the initiative, development of terms of reference, and identification of representatives to sit on the Commission remaining to be worked out. On Iran, Australian officials confirmed the GOA was considering what additional steps it could take to increase pressure on Iran, including regarding Bank Melli. In response to the DPRK's recent nuclear declaration, the GOA had renewed its offer to provide bilateral development aid if the DPRK made progress in abandoning its nuclear weapons but took on board AA/S McNerney's concerns that Australia not provide non-humanitarian aid prematurely. Discussions also covered the Proliferation Security Initiative; the Global Initiative to Combat Nuclear Terrorism; Civil Nuclear Outreach; Trilateral Cooperation; Chemical, Biological, Radiological, and Nuclear (CBRN) threat reduction, and Australian plans to host the Missile Technology Control Regime (MTCR) Plenary in November 2008. The Australian officials said strong anti-nuclear sentiment in Australia ruled out consideration in the short term of the use of nuclear energy to address reduction of greenhouse gases. The new Rudd government is not expected to make a decision for some months on whether to continue the previous government's participation in the Global Nuclear Energy Program (GNEP).

12. (S/NF) Acting Assistant Secretary McNerney discouraged an International Commission predominantly focused on disarmament, noting it would divert the spotlight away from such proliferators and NPT violators as Iran, Syria and North Korea, and ignored the positive progress that was being made in disarmament. She discussed U.S. plans to announce additional sanctions against Iran, noted EU's recent issuance of further sanctions and urged Australia to consider more expansive sanctions. On Australia's offer of bilateral development assistance to North Korea, McNerney cautioned against resuming aid before the DPRK had taken further steps toward verifiably dismantling its nuclear program. She urged Australia to remain engaged in GNEP, stressing GNEP's importance in preventing nuclear proliferation and facilitating the benefits promised by the NPT, and the importance of Australian leadership on this international issue. End Summary.

13. (SBU) The Department of Foreign Affairs and Trade (DFAT) hosted an interagency roundtable for Acting Assistant Secretary McNerney in Canberra June 30, including representatives from the Australian Department of Defence, Australian Safeguards and Nonproliferation Office, Department of the Prime Minister and Cabinet, and the Office of National Qof the Prime Minister and Cabinet, and the Office of National Assessments. (A full list of participants is provided at para 28.) A summary of the discussions follows.

NUCLEAR NONPROLIFERATION AND DISARMAMENT COMMISSION

14. (C) Jennifer Rawson, First Assistant Secretary for International Security, DFAT, traced the genesis of Prime Minister Rudd's International Nuclear Nonproliferation and Disarmament Commission (NNDC) initiative from the Australian Labor Party's (ALP) longstanding commitment to nuclear disarmament and its experience with the 1995 Canberra Commission on the Elimination of Nuclear Weapons, initiated under the previous Labor government. The new Commission, chaired by former foreign minister Gareth Evans, would build on this history but take into account the current strategic realities in seeking to make a practical contribution to nuclear nonproliferation and disarmament. She stressed that Prime Minister Rudd wanted the Commission to give a strong focus to disarmament, a view shared by Evans. In establishing the commission, the GOA re-emphasized the importance of the U.S. alliance and its role in the region, and planned to consult closely with the United States. Rawson acknowledged the progress the U.S. had made on

disarmament, voicing the hope the U.S. could make additional steps towards that goal. Development of the commission was at an early stage. The GOA needed to continue discussions with the Japanese government about the possibility of co-chairing the Commission, which would be composed of independent experts rather than government officials. Rawson expressed optimism that the question of Japanese co-chairmanship would be resolved in a week or so. Another remaining task is development of the commission's terms of reference (TOR). Gareth Evans, who is not able to turn his attention to the commission until mid-July, would have a hand in drafting the TOR. Rawson said she hoped the United States and other countries could contribute to it, too.

15. (C) Acting A/S McNerney cautioned that the commission should not veer too far towards disarmament either in terms of focus or members' backgrounds. While the United States agreed the NPT was under serious pressure, it would not be helpful to focus on disarmament at the expense of continuing to spotlight proliferators and NPT violators such as Iran, Syria and North Korea. Moreover, the U.S. record on disarmament was a good one, she argued, adding the United States reduced the role of nuclear weapons in its strategic posture and that the total number of U.S. nuclear weapons had been reduced significantly and was at one of the lowest points in history. McNerney, observing that Australia had set an ambitious agenda for itself before the 2010 NPT Review Conference (RevCon), asked what timetable the GOA had in mind, and whether it contemplated asking the United States to join the Commission. She also cautioned against allowing the Commission to be used as a platform to attack the United States. On timing, Rawson responded the commission would have an as-yet-undetermined number of meetings before producing at least an interim report in advance of an international conference that Australia planned to host at the end of 2009, approximately six months before the RevCon. She said the question of representation on the Commission remained to be discussed with Gareth Evans, but offered her personal view that it would be unrealistic not to include the United States and other P-5 states. Rawson took on board the caution about allowing unhelpful elements to hijack the agenda, reassuring McNerney that Australia would not let that happen. Rawson also noted the important work by Chris Ford over the last year in NPT meetings publicizing USG success on disarmament.

IRAN

¶6. (S/NF) Acting A/S McNerney briefed her Australian interlocutors on the status of Iran's enrichment activities and the latest P5 plus 1 offer, noting the international community needed to be ready to respond with increased pressure if Iran rejected the offer. She cautioned that, rather than rejecting the offer outright, Iran would prevaricate and attempt to play countries off against each other to buy time. She observed that Iran was low on yellow cake, and that the United States had approached Rio Tinto to ensure Iran did not have access to new supplies from that source. She urged further outreach to other companies to close off other possible markets. McNerney advised the United States was continuing to push for a new UN Security Council resolution. The U.S. planned to announce additional sanctions against Iran possibly during the second week of July. McNerney asked the GOA to consider more expansive sanctions as well, including designating Bank Melli. In addition to sending a signal that Iran faced consequences for its action, she asserted, further GOA steps would indirectly help our strategy of encouraging the Gulf nations to pressure Iran. She disputed commentary that claimed sanctions were failing, describing the practical effects banking, shipping and travel sanctions were having in isolating Iran, but that the total effect of sanctions requires additional time and increased effort. McNerney highlighted cooperative efforts in denying IRISL vessels unfettered access to international shipping as one example of further steps to implement UNSCR ¶1803.

¶7. (S/NF) Rawson confirmed the Australian government was looking at additional measures it could take, especially in light of the EU announcement of additional sanctions. The GOA had scope to do more and understood the importance of having the international community united in forcing Iran to halt its activities. She was pessimistic that Iran would

pull back from its course. Iran wanted, at a minimum, to move to a breakout capacity in its nuclear development, she asserted. The global community needed to maintain pressure to force Iran to consider the consequences of its actions. Iran's neighbors, such as Saudi Arabia, were worried.

¶8. (S/NF) John Carlson, Director-General of the Australian Safeguards and Non-Proliferation Office, commented that the Iranians had a sufficient stockpile of LEU at Natanz to produce HEU by the middle of 2009, if its centrifuges continued operating at their current rates of efficiency, which he put at two-thirds of 80 percent. The fact that Iran was able to keep its older centrifuges operating continuously at that level, and was bringing more advanced centrifuges on line, was not good news, he observed. Carlson handed McNerney three ASNO documents: "Further Nuclear Facilities in Iran: Obligation for Early Provision of Design Information to the IAEA"; "Iran Nuclear Issue -- Brief Critique of Options for a Negotiated Outcome"; and "Safeguards in a Changing Environment." (Papers have been forwarded to ISN separately.)

NORTH KOREA

¶9. (S/NF) Acting A/S McNerney described U.S. actions taken in response to the DPRK's nuclear declaration, along with next steps in the Six-Party process, but stressed that while these actions are positive, the United States remained appropriately skeptical of North Korea's direction and would test it through verification activities. She noted a verification implementation plan had not yet been finalized, and none of the disabling actions the DPRK had taken to date would be difficult to reverse. Moreover, the DPRK had not yet taken the significant actions, such as removal of fissile material and disposal of fuel rods, that would show its serious intent in dismantling its nuclear program. Taking note of Foreign Minister Smith's announcement following the DPRK declaration that Australia had renewed its offer of development assistance, McNerney cautioned Australia against

prematurely resuming development aid and urged Australia to wait until North Korea had taken more concrete actions to dismantle its nuclear program, adding she had delivered the same message to the Europeans. She warned that the DPRK was skilled in extracting maximum assistance by doing as little as possible.

¶10. (S/NF) First Assistant Secretary Rawson reaffirmed Australia's support for the Six-Party Talks and its intention to consult closely with the 6PT states. Australia shared U.S. concerns about North Korea's proliferant behavior, particularly with Syria and Burma, and procurement networks. It was unclear to Australia whether the DPRK had made the decision to give up its nuclear weapons, but it was important to involve them in a process that promised to bring them closer to giving up their weapons and fissile material, estimated to be in the range of 30 to 55 kg. On resumption of aid, Rawson assured McNerney that if the GOA begins providing assistance to North Korea, it would be on a very small scale, for example in agriculture, and would be linked to further progress in dismantling its nuclear program. Roger Hodgkins, Senior Analyst with the Office of National Assessments, observed the DPRK declaration dealt only with plutonium. It had been crafted in such a way to make access to an HEU program a challenge. McNerney noted that the U.S. verification plan was being drafted to cover all aspects of the North's nuclear and weapons programs.

¶11. (S/NF) Turning to Syria's suspected nuclear site, McNerney said the Syrians had not been helpful in providing full access to IAEA inspectors. Carlson opined that the inspectors could be expected to find graphite from the reactor, but the Syrians would likely concoct a cover story attributing the presence of graphite to missile engines. The best way to verify the existence of a nuclear facility would be to get to the rubble underneath the new building constructed on the site, he said. McNerney interjected it was also worrisome that Syria had denied IAEA access to the other suspected nuclear sites.

PROLIFERATION SECURITY INITIATIVE (PSI)

¶12. (C) DFAT Acting Assistant Secretary for Arms Control and Counter-Proliferation Gerry McGuire said Australia was pleased with the evolution and course of the PSI program,

which now included 91 countries. He described Australia's outreach activities in the Asia-Pacific region, including plans to host a regional PSI meeting in 2009. He hoped to flesh out GOA plans at the PSI meeting in Paris in September.

¶13. (C/NF) Acting A/S McNerney described U.S. outreach efforts with Thailand and Indonesia. Apparently, Thailand was not yet ready to join PSI, despite positive signals from the Ministry of Foreign Affairs, because of opposition from the military. Indonesia had shown itself to be increasingly open-minded towards PSI, but preferred more bilateral cooperation. A possible strategy would be to continue to engage bilaterally with Indonesia, for example through activities in the Malacca Strait, until it was comfortable with cooperation and might find it easier to endorse the PSI.

¶14. (C/NF) Rawson agreed, suggesting that PSI countries engage with Indonesia bilaterally in the same kinds of exercises and activities that are compatible with PSI, but without badging them as PSI activities.

Global Initiative to Combat Nuclear Terrorism (GI)

¶15. (SBU) Jennifer Rawson expressed satisfaction with the progress of the GI, but hoped to see more countries in the Asia-Pacific region engaged. Australia was planning additional outreach, and was examining what can be done at the practical level to make the program more meaningful. It was more important to engage in practical activities than to simply sign up more countries, she observed. Australia was

looking at possible activities for 2009 that focused on prevention as well as consequence management.

¶16. (SBU) McNerney agreed on the need to show concrete outcomes. Membership had had the benefit of making countries reorganize themselves internally in a way that made them view nuclear terrorism differently. Outreach remained important. McNerney encouraged Australia to enlist the participation of the private sector and local governments in the GOA's efforts to prevent and respond to nuclear terrorism. McNerney also suggested that the GOA host an exercise in 2009. Rawson noted the GOA was considering an exercise, and would more likely focus on prevention rather than consequence management.

Civil Nuclear Outreach

¶17. (C/NF) Acting A/S McNerney described U.S. civil nuclear outreach programs, and the U.S. HEU downblending program to create an assured fuel supply. She expressed U.S. appreciation for Australia's support for the United States' revised criteria-based proposal for controlling transfers of enrichment and reprocessing (ENR) facilities and technology in the Nuclear Suppliers Group. Canada opposition to the turnkey - blackbox criteria appeared to be rooted in a fixation on rights. She described fuel bank proposals, including the Nuclear Threat Initiative fuel bank fund challenge. She also noted MOUs signed with Gulf states that set a precedent for responsible civil nuclear development. McNerney expressed hope that Australia would remain in the Global Nuclear Energy Partnership (GNEP), and that Australia would help advocate for nonproliferation as aspects of civil nuclear development, including under GNEP.

¶18. (C/NF) Rawson replied that there had not yet been a decision by the new Labor government on Australia's continued participation on GNEP. A GOA decision was two or three months away at least, as the issue was not high on the government's list of priorities. She recounted the Australian Labor Party's history of opposition to nuclear power plants, and noted that the party had had a bitter dispute in 2007 over whether to abandon its policy to limit uranium mines to three nationwide. In the end, the policy was scrapped but the polarization it occasioned would make it even more difficult for a Labor prime minister to reverse the long-standing opposition to nuclear energy in Australia. There had been some discussion about revisiting the nuclear energy question, driven by concerns over climate change and the imperative of developing an emissions trading scheme, but it was a minority view. Some in Australia saw GNEP as merely a scheme to promote nuclear energy rather than a nonproliferation program. Rawson said she had had some success in educating the Minister for Foreign Affairs on GNEP's value on nonproliferation. It would take several

months for the issue to play out, she predicted, voicing hope that the nonproliferation assurances in a reliable fuel supply would prevail. In her view, Australia needed to be a player in the global nuclear energy picture, of which GNEP was a part. There was a visceral anti-nuclear feeling in Australia, but it was up to the government to manage it.

¶19. (C/NF) Carlson commented that while in opposition, the Australian Labor Party believed GNEP was a plot by nuclear countries to send spent fuel back to Australia for storage. It would be hard to overcome entrenched views on GNEP. Carlson noted an Executive Committee of Cabinet would meet at the beginning of October to take up the issue. Carlson stated flatly that there was no way to get to a workable cap-and-trade system without nuclear energy, a point he had made directly to Prime Minister Rudd. Carlson did not foresee a shift to embrace nuclear energy emanating from the federal level. Decisions about energy were made at a state level, he explained. He predicted there would be no movement towards nuclear energy in Australia unless a state or territory concluded that it needed to have nuclear power in its energy mix.

¶20. (C) Carlson said Australia was interested in seeing adherence to the Additional Protocol as a condition of supply. Acting A/S McNerney confirmed that this was consistent with U.S. policy, which supported the Additional Protocol as a condition of supply. In response to Rawson's question on the status of the "square brackets," McNerney said the U.S. hoped the issue would be addressed in the G8 statement.

U.S.-India Civil Nuclear Agreement

¶21. (C) In response to Rawson's question about the status of the U.S.-India civil nuclear agreement, McNerney acknowledged that prospects for passage before the end of the current Administration appeared slim, although there was a small window of opportunity. Rawson reiterated the Rudd government's policy that it would not sell uranium to India as a non-NPT member. The GOA would decide on an exception for India in the NSG for the U.S.-India deal "at the appropriate time," she added.

Trilateral Strategic Dialogue (TSD)

¶22. (C/NF) Acting A/S McNerney discussed the possibility of using the TSD to advance nonproliferation goals, perhaps through a new working group. One area for trilateral work could be in export controls and border security; another would be bioterrorism. Japan could focus on industry, with the U.S. contributing on the legal angle. Each country could use its strengths, and target specific countries in capacity development. Biosecurity engagement with Indonesia, for example, would be an area for collaboration. She thanked Australia for contributing to the success of the trilateral May 2008 bioterrorism workshop in Kuala Lumpur.

¶23. (C/NF) Rawson agreed that the TSD represented an important means of pursuing practical nonproliferation cooperation. The Japanese needed to be cajoled, however, and were more "siloed" than Australia or the United States, but were more "siloed" than Australia or the United States, but it was still worth the investment and effort to enlist Japan's participation. Rawson noted it was important to both consolidate our current trilateral activities and expand into new areas.

CBRN Threat Reduction

¶24. (SBU) Ms. McNerney described ISN's threat reduction activities in Southeast Asia, particularly Indonesia and Thailand, flagging U.S. success in developing good relations with scientists. The proliferation risk from misuse of scientists' knowledge was a very thorny issue. ISN also worked closely with the Philippines aimed at reducing bioterrorism. McNerney said the U.S. had also focused on the threat posed by Pakistani nuclear weapon scientist A.Q. Khan, demarching Pakistan to keep him under house arrest when the Pakistani government was considering allowing him more freedoms. Turning to the G8 Global Partnership, McNerney acknowledged the need to expand the program's scope beyond Russia and the former Soviet Union, despite opposition by Russia. She expressed hope that Australia would continue to

be supportive, noting its contribution for submarine dismantlement, and promised to revisit the issue with Australia, once the G8 had issued its statement. The U.S. was concerned about nuclear smuggling, and how the G8 could organize itself to address the issue. More secure shipping was one answer.

¶25. (C/NF) First Assistant Secretary Rawson outlined Australia's parallel activities, which had a counterterrorism focus. The Rudd government wanted to focus strongly on Southeast Asia, as well as India and Pakistan.

MTCR Plenary

¶26. (C) Acting A/S McGuire reviewed Australian preparations for hosting the MTCR Plenary in Canberra during November 3-7, ¶2008. The GOA had not yet named the Chair, as the nominee, who would be DFAT's Assistant Secretary for Strategic Affairs, was not yet in place. McGuire said the Plenary would have a strong Southeast Asia focus. He welcomed the U.S. outreach proposal for discussion at the Small Group. McGuire inquired whether the U.S. planned to continue to seek support for its UAV proposal at the Plenary.

¶27. (C/NF) Acting A/S McNerney responded that the U.S. needed to get past opposition from Russia, Brazil, and South Africa. Russia, especially, was unwilling to agree to an UAV proposal that would reduce its own flexibility. The United States was still considering how to carry the proposal forward.

PARTICIPANTS

¶28. (SBU) Participants in the June 30 DFAT-hosted roundtable in Canberra included:

United States:

- Acting Assistant Secretary Patricia McNerney, Bureau of International Security and Nonproliferation (ISN), Department of State
- Bridget McGovern, Special Advisor, ISN
- Randall Beisecker, Action Officer for Southeast Asia, Office of Regional Affairs, ISN
- Daniel A. Clune, Deputy Chief of Mission, U.S. Embassy
- John W. Crowley, Deputy Political Counselor, U.S. Embassy (notetaker)
- Carol M. Hanlon, Political-Military Officer, U.S. Embassy

Australia:

- Jennifer Rawson, First Assistant Secretary, International Security Division, Department of Foreign Affairs and Trade (DFAT) (Chair)
- Gerry McGuire, Acting Assistant Secretary, Arms Control and Counter-Proliferation Branch, DFAT
- Chris de Cure, First Assistant Secretary, Americas Division, DFAT
- Craig Chittick, Assistant Secretary, United States Branch, DFAT
- Rebecca Skinner, First Assistant Secretary, Strategic Policy Division, Australian Department of Defence (ADOD)
- Kathryn Hitchings, Acting Assistant Secretary, Security, Policy and Programs Branch, Department of Defence (ADOD)
- John Carlson, Director-General, Australian Safeguards and Non-Proliferation Office (ASNO)
- Rob Floyd, Acting Head, Office of National Security, Department of the Prime Minister and Cabinet (PM&C)
- Roger Hodgkins, Senior Analyst, Office of National Assessments (ONA)

¶29. (U) AA/S McNerney reviewed and cleared this reporting cable prior to her departure from Australia.

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